



## Services Provided by PayPal.com

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**PayPal.com** is a web-based payment service created by Confinity, Inc., which enables consumers to email money via their PC or PDA (Personal Digital Assistant, exemplified by the Palm Pilot™). Recently the service has added Web-enabled mobile phone access. Through a secure application, people are able to send money from an existing credit card or bank account to any e-mail address in the world. If the recipient is not registered with PayPal.com, s/he receives an e-mail message alert that the recipient has money waiting to be collected, and the recipient then signs up with PayPal.com. The basic service is free.

**PayPal.com** has received nothing but highest recommendations from various media, including **Forbes Magazine**, **Time**, the **Wall Street Journal**, and the New York **Times**. It has been adopted by **eBay** (in addition to **Billpoint**) as a reliable broker for financial transactions. Even the founder of **Verifone** and key financial backer of PayPal.com, Bill Melton, comments "Verifone first captured the market for credit card readers, but we hit a wall because only merchants would buy them. PayPal blasts through that wall, enabling every handheld consumer to own a credit card terminal in their pocket."<sup>i</sup> PayPal.com has given the principal of viral marketing a slightly better connotation; one supposes receiving cash makes being compelled to sign up for a service less distasteful. In addition, the site calls itself the first truly M-commerce (or mobile e-commerce) application.<sup>ii</sup> There are other claims about the benefits of using PayPal.com, including the ability to order espresso through a PayPal-powered menu five minutes before arriving at the store, and so forth.

Services provided by **PayPal.com** are, basically, sending money and requesting money (e-mailing someone a "bill"). Besides U. S. Dollars, funds are accepted in the following currencies

Australia  
Austria  
Belgium  
Brazil

Hong Kong  
Ireland  
Israel  
Italy

Norway  
Portugal  
Singapore  
South Africa

Canada	Japan	South Korea
Denmark	Mexico	Spain
France	Netherlands	Sweden
Germany	New Zealand	Switzerland
		United Kingdom

International transfers require a credit card or a debit card, while payment in dollars can also be accomplished through e-checking (registering one's bank and account numbers). Besides personal accounts, PayPal.com promotes Business Accounts, Auction Payments (it has handled 2 million transactions through eBay), and Web Accounts (allowing the user to accept payments on a web page or home page. PayPal.com users are also able to sign up for a Money Market account, through x.com, a separate web-banking site that merged with PayPal.com March 2 of this year.

Security and privacy information is clearly labeled and easily available through PayPal.com's home page. **TRUSTe**, an independent, non-profit organization, has licensed PayPal.com. This license assures site users that the utmost in privacy is guaranteed.

**SafeWeb Remote Banking Insurance** from Travelers Insurance™ is used to provide \$100,000 insurance to each account, protecting the PayPal.com user from unauthorized or fraudulent withdrawals. With this insurance, the account holder is in a situation that seems equal to the FDIC. Dr. Martin Hellman, the inventor of public key cryptography, who sits on the Confinity's Board of Advisors, with the assistance of Dr. Dan Boneh, a Stanford computer science professor, designed the security system. PayPal.com includes the following paragraphs on its **security information page**:

PayPal automatically encrypts your confidential information in transit from your computer to ours using the Secure Sockets Layer protocol (SSL) with an encryption key length of 128-bits (the highest level commercially available). Before you even register or login to our site, our server checks that you're using an approved browser - one that uses SSL 3.0 or higher.

Once your information reaches us, it resides on a server that is heavily guarded both physically and electronically. Our servers sit behind an electronic firewall and are not directly connected to the Internet, so your private information is available only to authorized computers.

PayPal.com offers two levels of service. The Personal Account features the "Core Features": send money, request money, auction tools, money market, international payments, \$100,000 insurance, and email-based customer service. The Premier Account includes the above Core Features and also features referral bonuses, Web Accept, Instant Purchase for Auctions, Auto-Sweep (daily sweep of funds into primary bank account),

unlimited credit payments, downloadable transaction history, mass payments, special promotions, and 24/7 call-center customer service. Premier and Business Account members can also get a \$5 referral bonus by putting the PayPal.com logo their web sites.

PayPal.com's primary income comes from interest income on cash balances. As services have expanded in recent months, PayPal.com began to charge fees (at 1.2% quite modest compared with 4%-7% charged by most credit card companies to participating merchants). Some of the features under the Premier Account level also include similarly low fees, but, for example, a deposit made to PayPal.com and then swept into a bank account costs a total of 2.19%, compared with a total of a minimum of 5% using the most reasonable credit card companies and bank systems.<sup>iii</sup>

**Marketing** of PayPal.com is done primarily through viral methods, that is, the payee cannot receive money unless s/he signs up for the service, which is free. When PayPal.com first started, it gave people who signed up \$10 from PayPal.com and \$20 from X.com, as well as a \$10 bonus for each friend who is signed up, up to \$1000.<sup>iv</sup> Now the user gets \$5 for signing up, and \$5 for each new person who signs up and uses the virus carrier's e-mail as a reference. The higher rates were justified in the beginning of the enterprise; in one of those breath-taking erroneous predictions laughed at later "Joel Friedman, banking expert at Anderson Consulting, says it will be hard to produce enough volume."<sup>v</sup>

The first marketing stunt was conducted by Peter Thiel, Chief Executive Officer of Confinity, the developer of PayPal.com. July 22, 1999, Nokia Ventures, PayPal.com's leading start-up investor, wired \$3 Million to Thiel while he was at a restaurant. At the November 16, 1999, launch Thiel again sat in a restaurant and beamed his part of the bill to a friend sitting across the table with his Palm Pilot. The friend's Palm Pilot registered the receipt of the money, but Thiel could have used a friend's e-mail address instead. Thiel showed up on CNN-FN's Digital Jam on November 29, 1999, demonstrating his application in action and defending against the jibes of "funny money."<sup>vi</sup>

The climax of the opening push for PayPal.com came with the release of the Palm Organizer version of its software December 17. On that date

PayPal.com also introduced James Doohan - widely known for his role as "Scotty" on Star Trek™ - as the company's official spokesman. "I've been beaming people up my whole career," Doohan quipped, "but this is the first time I've been able to beam money!" While remarking on PayPal.com's cutting-edge technology, Doohan also stressed how easy it is to use . . . To commemorate the historic launch of PayPal.com's Palm Pilot application, Doohan beamed an early Christmas present to

thousands of lucky Web users. With the touch of a button on his Palm Pilot, Doohan used PayPal.com to beam a total of one million dollars to countless individuals across the country.<sup>vii</sup>

The **History of PayPal.com** is one that makes Moore's Law seem pokey. In late 1998 Peter Thiel, a former securities lawyer and options trader, created Confinity with a group of friends, mostly former classmates and professors from Stanford University. Thiel was running his own private equity fund, and he agreed to finance Max Levchin, a software developer who, having "sold his own start-up, wanted to develop a secure software system that allowed people to transfer money to other individuals using mobile electronic devices."<sup>viii</sup>

The first investors included Dr. Martin Hellman, professor emeritus of engineering from Stanford University. On July 22, 1999, Nokia Ventures beamed \$3 million to Confinity, and Deutsche Bank's contribution brought the total to \$4.5 million.<sup>ix</sup> After the launch of the service November 16, 1999, Confinity soon picked up support from Idealab Capital Partners (a venture capital firm) and investment bank Goldman, Sachs & Co. who announced on January 20 that they had invested \$23 million in PayPal.com.<sup>x</sup> At the end of February Pixo agreed to work with PayPal.com to provide new methods of transferring money over the Intenet via wireless phones.<sup>xi</sup> By May PayPal.com had raised another \$100 million, and had 1.5 million account holders creating a daily throughput of \$2 million.<sup>xii</sup>

Along the way, PayPal.com was named the primary online payment service on eBay, carrying nearly double the number of transactions as its nearest competitor by January 31. X.com, an online bank led by Elon Musk, founder and chairman, and PayPal.com merged March 2, "creating the world's largest secure network for instant online payments."<sup>xiii</sup> PayPal.com kept its name as the money transfer service, but X.com was listed as the "parent." In June the web site broke into *PC Data Online*'s list of the Top 100 based on the number of unique visitors to a site. The following table was compiled from monthly data available through PR Newswire Association, Inc. November data will be available in mid-December.

	<b>PayPal.com</b>	<b>x.com</b>	<b>x.com</b>	<b>x.com</b>	<b>x.com</b>
	June 2000	July 2000	August 2000	September 2000	October 2000
Rank	98	76	60	71	35
# of Unique Users (000)	4719	6136	7073	6629	8622

Change over Previous Month	23.09%	13.25%	-6.70%	23.12%
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Elon Musk, founder and chief executive of X.com stepped down in October, and he was replaced temporarily by William Harris, a director at Intuit. It should be noticed that Intuit and X.com signed a 5-year cooperative agreement in early October.

Competitors to PayPal.com have been rated by CNET.com and by Forbesbest.com. CNET.com's reviews cover eMoneyMail, Ecount, payMe.com., and CheckFree Web Billing and Payment. Their comments are in the chart below.

Company	The Good	The Bad	The Bottom Line
<u>eMoneyMail</u>	Delivers payments faster than the competition; additional security ensures money doesn't end up in the wrong hands.	Charges a service fee; requires too much personal info to register a checking account.	When speed is of the essence and money's no object, turn to eMoneyMail. But for a free, more comprehensive service, go with PayPal.
<u>Ecount</u>	Lets you specify the day you want money to arrive; provides payees with an online account to spend money on the Web; 24/7 toll-free customer support.	Takes a long time to activate your account; deposits payments only to credit card accounts; complicated sign-up process.	If your pals spend lots of cash online, Ecount's the best way to send them gift money. It's too inconvenient for most regular payments, though.
<u>payMe.com</u>	Deposits money in credit card and checking accounts; no limit to the amount you can send overall.	Takes seven business days for payments to show up; lacks a specialized form to pay for online auction bids.	payMe.com's easy to use, but it simply takes too long to make payments. Until it shortens this lag time, use PayPal instead.
<u>CheckFree Web Billing and Payment</u>	Pays anyone and retrieves e-bills from a limited number of payees; won't reveal private details of your purchases; exports transactions to Quicken and Microsoft Money.	Pricey. The less expensive, Yahoo-branded version of CheckFree instead.	CheckFree Web Billing and Payment - available at numerous banks, brokerage houses, and even a few portals - gives you the most flexibility without sacrificing your privacy. Right now it's the clear choice for anyone who wants to pay bills online.

Forbesbest.com links its reviewed sites to the company's web pages. They rank several as "Best of the Web," and lists PayPal.com as "Forbes' Favorite." The list is included below. (Note: a visit to PayPlace.com discloses an Important Announcement that contains this sobering paragraph

In April 2000, our company Dynamic Transactions launched consumer-focused PayPlace.com to showcase our Internet payment technologies. As a result of the overwhelming acceptance of this service, a third party in the B2B market space intends to acquire Dynamic Transactions. We will discontinue the PayPlace.com service on December 1, 2000.

<b>Billpoint</b>		<u><a href="http://www.billpoint.com">www.billpoint.com</a></u>
<b>Ecount</b>	<b>Best of the Web</b>	<u><a href="http://www.ecount.com">www.ecount.com</a></u>
<b>EmoneyMail</b>		<u><a href="http://www.emoneymail.com">www.emoneymail.com</a></u>
<b>Gmoney.com</b>	<b>Best of the Web</b>	<u><a href="http://www.gmoney.com">www.gmoney.com</a></u>
<b>MoneyZap</b>	<b>Best of the Web</b>	<u><a href="http://www.moneyzap.com">www.moneyzap.com</a></u>
<b>PayMe.com</b>	<b>Best of the Web</b>	<u><a href="http://www.payme.com">www.payme.com</a></u>
<b>PayPal.com</b>	<b>Forbes' Favorites</b>	<u><a href="http://www.x.com">www.x.com</a></u>
<b>PayPlace.com</b>		<u><a href="http://www.payplace.com">www.payplace.com</a></u>

## Cast of Characters

**Peter Thiel** - former securities lawyer and options trader, created Confinity in 1998. In March 1998, with David Sacks, he published a commentary in the Asian Wall Street Journal taking issue with the International Monetary Fund's approach to Asia's problem economies.<sup>xiv</sup> They excoriated the IMF, comparing what they describe as bad regulatory practices similar to those used by the more deregulate Asian governments. Both men had been editors of the Stanford Review, the campus' conservative student newspaper, when they were enrolled, and in February 15, 1996, they lambasted and ridiculed Stanford's curriculum by contributing "The Cost of Multiculturalism" to an Open Forum in the San Francisco *Chronicle*.<sup>xv</sup> In advance of the release of The Diversity Myth: Multiculturalism and the Politics of Intolerance at Stanford, written while they were at the conservative think-tank Independent Institute, they submitted a Wall Street Journal piece that aroused the

ire of Stanford University President Gerhard Casper and Provost Condoleezza Rice.<sup>xvi</sup>

**Elon Musk** - The son of a South African engineer and a Canadian model, Musk left home at 17 to attend Queen's University in Ontario because he was about to be drafted by the South African army. He soon transferred to the University of Pennsylvania on scholarship, and graduated from Wharton with an undergraduate degree in business. He lasted two days as a graduate student in physics before dropping out to create Zip2. A self-taught programmer, he sold Zip2 to Compaq in April 1999 for \$307 million (he and his brother owned 12% of the stock), and by August of the same year started up X.com.<sup>xvii</sup>

**Credit Cards** have been around since the 1920s when individual merchants issued cards for purchases. The first universal card was the Diners' Club, Inc., issued in 1950. With this card, customers were charged an annual usage fee and employers were charged 4-7% of total billings. The American Express card debuted in 1958. The Bank of America (then only in California) issued the first bank card a year afterward, and it was licensed in other states starting in 1966. Futurists as far back as the late 1940s predicted soon Americans would be a cash-less society in two years from whatever year the prediction appeared, and journalists would travel through a city, testing how far they could get with no coins or dollars and writing up the results. Americans seem unwilling to part with cash that easily, but services such as PayPal.com seem to accelerate the possibility of cashlessness.

## Resources

<sup>i</sup>"Beaming Money by Email is the Web's Next Killer App," *PR Newswire*, November 16, 1999.

<sup>ii</sup>*Ibid.*

<sup>iii</sup>Author's experience as Treasurer of the International Alliance for Women in Music.

<sup>iv</sup>Christine Dugas, *USA TODAY*, February 1, 2000.

<sup>v</sup>*Ibid.*

<sup>vi</sup>CNN-FN, *Digital Jam*, November 29, 1999, 8:14 p.m. EST (transcript).

<sup>vii</sup>"Scotty' Beams a Surprise to Thousands," *PR Newswire*, December 17, 1999.

<sup>viii</sup>Tim Jackson, "When cash no longer counts," *Financial Times* (London), May 9, 2000, p. 22.

<sup>ix</sup>Scott Herhold, *San Jose Mercury News*, July 22, 1999.

<sup>x</sup>Debora Vrana, "Idealab Partners to Invest in PayPal.com," *Los Angeles Times*, January 20, 2000, p. C2.

<sup>xi</sup>"Pixo - PayPal.com," Phillips Business Information, Inc., Vol. 4, No. 34, February 22, 2000.

<sup>xii</sup>Jackson, *op.cit.*

<sup>xiii</sup>"X.com and PayPal.com Announce Merger Plans," *PR Newswire*, March 2, 2000.

<sup>xiv</sup>David Sacks and Peter Thiel, "Side Effects of IMF's Cures are More of the Same Ills," *Asian Wall Street Journal*, March 16, 1998, A16.

<sup>xv</sup>Mary Louise Roberts, Letter to the Editor, San Francisco *Chronicle*, February 24, 1996, p. A16.

<sup>xvi</sup>Bill Workman, "Stanford Chief Hits Wall Street Journal Piece," San Francisco *Chronicle*, October 11, 1995, p. A13.

<sup>xvii</sup>Mark Gimein, "High tech's new 'It Guy,'" *The Ottawa Citizen*, August 23, 1999, p. D1.

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## PayPal Puts Dough in Your Palm Karlin Lillington

**Story location:** <http://www.wired.com/news/technology/0,1282,20958,00.html>

*09:35 AM Jul. 27, 1999 PT*

The bill for lunch arrives, but you've left your wallet in the car. Your lunchmate doesn't want to pick up the tab.

That scenario should be a reality by September, when Confinity, a Palo Alto, California software start-up, launches PayPal, an application that will allow individuals to "beam" sums of money between handheld devices such as mobile phones, Palm Pilots, and pagers.

"All these devices will become one day just like your wallet," said Confinity CEO Peter Thiel. "Every one of your friends will become like a virtual, miniature ATM."

In Thiel's case, though, it's a pretty fat wallet.

Last week at PayPal's launch party, venture capital firm Nokia Ventures used the software to beam US\$3 million to Confinity through Thiel's Palm Pilot. The whole process took about five seconds.

Thiel said consumers will register a credit card number at the PayPal Web site, download the small application, and choose a PIN number.

Sending a payment involves entering in the amount into the Palm and transferring it to another with the "beam" function. The device figures out who the recipient and sender are, and the next time the sender logs on to PayPal's site the payment is processed.

And if the recipient lacks the PayPal application, the sender can beam that over, too. That, says Thiel, is actually part of the business plan for spreading the application widely.

Americans have so far been reluctant to use online electronic wallet programs or microchip-embedded smartcards, although the latter are popular in Europe.

Thiel says he is confident PayPal will succeed because the program allows individuals to make payments to each other, not just to retailers or financial institutions.

"Most transactions take place between people in the real world, away from the desktop," he said.

The money involved in the transactions will be handled by Merrill Lynch in an escrow account; the interest earned by the account will go to Confinity.

"Part of our business model is to capture the float," says Thiel. Once Confinity establishes a trustworthy reputation, he says, he expects many people will also choose to pay Confinity

directly by check or transfer to preload their PayPal account, rather than adding the extra step of going through a credit card.

Concerns about security have also hampered the growth of digital transactions, but PayPal relies on the work of two renowned cryptologists.

Stanford University professors Dan Boneh and Martin Hellman helped develop the application. Hellman, who along with Whit Diffie invented public key cryptography, is also an investor.

Because PayPal uses strong encryption, Confinity is obliged to apply for an export license from the US government to offer the program outside the United States. The company hopes to market PayPal in Europe.



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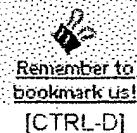
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### Will beaming money by email be Web's next killer app?

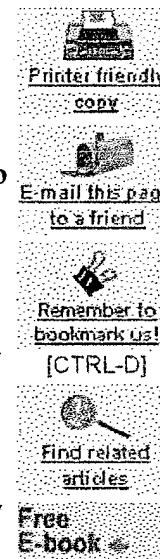
[November 16th 1999]

Confinity has launched PayPal.com, the first Web-based service that enables consumers to beam money via email, Palm organizers, cell phones, pagers and other Web-enabled devices. Unlike current online payment systems that require users to know bank account numbers of payment recipients, PayPal.com users only need an email address to beam a payment.

For consumers, the new service means they can pay money instantly, whether it's from their PC, at an online auction, at a coffee shop, or to a child in college simply by punching in an email address. They can split a lunch tab, pay a bill, or send money for Christmas more conveniently than ever before. Similarly, merchants will be able to receive money at all times without having to be linked to a credit-card service.

"Beaming money instantly, anytime and anywhere, is the next killer application for Web users," said Peter Thiel, Chief Executive Officer of Confinity. "Sending a message is great, but sending money is better. By delivering payments through mobile and desktop devices, PayPal.com will create a vast new network of personal electronic money terminals that make the payment of money more convenient and secure than ever before."

PayPal.com is designed to be an easy-to-use application that allows people to securely send money from an existing credit card or bank account to any email user in the world. After registering for the free service, consumers simply enter the recipient's email address and a dollar amount. The money is debited from payer's credit card or bank account, and credited to the recipient. The transaction takes seconds to complete. If the recipient is not yet a PayPal user, he or she simply registers on the PayPal.com site after receiving an email notification, and is immediately credited

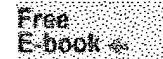


with the amount in the new account. Funds may be withdrawn at any time by electronic transfer to a bank account or a personal check from PayPal.com. Users may also opt to beam the money on to others.

Analysts forecast approximately one billion handheld Web-enabled devices in use worldwide by 2003, and Confinity aims to make PayPal available on all of them. The service is available immediately for personal computers and PDQ cellular phones in the United States. It will be available for the Palm operating system, which runs on more than 5 million handheld devices, in early December. PayPal will also be introduced to other cellular phone and Web-enabled platforms and to international users in the coming months.

Confinity expects PayPal.com to become an accepted means of payment for retail, business and commercial applications, as well as for person-to-person transactions. That's because PayPal will not only facilitate the exchange of value; it will facilitate a richer exchange of information as a seamless part of the transaction. For example, using their Web-enabled handhelds, coffee drinkers could order an espresso five minutes before arriving at the store. The menu would be powered by PayPal, which would beam both the order and the payment. Customers could pick up their drinks without waiting in line, and retailers could reduce the number of front-line personnel taking orders.

Checking into a hotel would also become an instant no-hassle process, as consumers simultaneously beam their reservation and payment information. Eventually, PayPal will enable consumers to receive instantly and electronically credit slips, coupons, and receipts.



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